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C O N F I D E N T I A L SECTION 01 OF 03 MEXICO 003494

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SUBJECT: SUBJECT: A CONVERSATION WITH AMLO,S INFRASTRUCTURE  
ADVISOR

Classified By: ACTING ECON CHIEF JONATHAN KESSLER FOR REASONS 1.4(B) AND (D)

1. (C) Summary: Carlos Robles-Gil, a key infrastructure advisor to PRD presidential candidate Andres Manuel Lopez Obrador (AMLO), discussed AMLO's economic team and proposals related to budget and finance, infrastructure, energy, and trade policy. Robles-Gil said the PRD campaign expects AMLO to win the presidency by at least six percentage points. Nevertheless, he characterized the economic team as uncoordinated and said the focus remains on winning the election rather than flushing out policy proposals. End summary.

2. (C) Econoff met June 22 with Carlos Robles-Gil, a former director general at Mexico's airport authority (ASA) and recent graduate of Harvard's Kennedy School of Government, following Mexico's loss in the World Cup to Portugal. Robles-Gil lamented Mexico's performance but said this was good for the PRD (since the PAN is perceived to benefit from Mexico's success in the games). Robles-Gil reiterated the centrality of Rogelio Ramirez de la O to AMLO's economic program, and named Gerardo Esquivel, a Harvard-trained PhD economist, Eugenio Robles Aguayo, Mexico City's lead fiscal attorney, and Carlos Urzua, Dean of Tec de Monterrey, as other influential voices on financial matters. Robles-Gil predicted that most of the senior people currently working under Francisco Gil Diaz, Minister of Finance, would be tossed out of Hacienda under an AMLO government.

3. (C) Robles-Gil recognized that it would be useful for AMLO to name a finance minister immediately following a possible victory in order to avoid pressure from vested interests, but did not know how long AMLO would in fact take. He thought that AMLO, if elected, would dispatch an economic team very quickly to New York and London to reassure markets. (Note: At a January breakfast with the Ambassador, AMLO stated he would create his teams quickly and not wait until December to start developing policy initiatives. End note.) Robles-Gil also predicted that if AMLO wins the presidency the PRD would negotiate successfully with the PRI to get legislation pushed through the next congress. He added there would likely be a quick "witch hunt" against AMLO's enemies following the elections to "send a signal of strength." He named Arturo Montiel Rojas (former governor of the State of Mexico), Roberto Hernandez Ramirez (former director of Banamex), and President Fox's step-children as examples.

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Budget and finance proposals  
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14. (C) Robles-Gil discussed three key problems that AMLO's team believe have undermined Mexico's economy under President Fox: an explosion in government spending and continued tax evasion, the lack of investment in infrastructure, and high domestic energy prices. AMLO's agenda for improving Mexico's competitiveness addresses these issues by reducing the highest official salaries, limiting perks such as government-provided chauffeurs, eliminating wasteful or ghost positions, and reducing bureaucratic structures to avoid redundancies. AMLO's team believes Mexico can save at least one percent of GDP by reducing federal spending and another percent through synergies. The reduction in government spending would be used to free resources for investment.

15. (C) Robles-Gil said tax revenues would be increased by closing corporate tax loopholes and reducing tax evasion. Savings could equal one percent of GDP. He noted that Arturo Herrera Gutierrez, Mexico City's Secretary of Finance, substantially increased the capital's tax revenues while AMLO was mayor, and he could be tapped to head the Servicio de Administracion Tributaria (SAT--Mexico's equivalent of the IRS) in an AMLO administration. Under AMLO's plan, existing tax rates would be preserved.

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High speed trains to the border?  
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16. (C) AMLO views infrastructure development as key to maintaining market share and investment momentum. His short-term strategy for growth would focus on housing and infrastructure development, including a framework for public-private partnerships. Robles-Gil said AMLO's team is looking at trains and airports, including building an isthmus

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railway corridor and lines from Mexico City to both Monterrey and Guadalajara. He approximated initial railway development costs at USD 32 billion and said AMLO has already sent a delegation to Spain to discuss railcar purchases. Ramirez de la O has said the first stage of transportation development would be a railway from Mexico City to Queretaro.

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Cheaper gas, please  
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17. (C) AMLO views a reduction in domestic energy costs as crucial to Mexico's competitiveness. Robles-Gil said gas is not a fungible market and AMLO's advisors believe Mexico should link domestic gas prices more closely to costs of production rather than to high U.S. prices. Lower energy costs will boost the competitiveness of Mexican industry, attract investment, and increase jobs.

18. (C) Robles-Gil said AMLO recognizes that Pemex cannot continue under its present condition. Pemex requires greater autonomy and efficiency, but AMLO will not open it up to privatization. His economic team believes that deep water exploration is unnecessary; rather, Pemex should exploit shallow water reserves in front of Veracruz and Tamalipas. Robles-Gil acknowledged that the next finance minister would face a dilemma as he searches for funds to pay for infrastructure development and social programs before government savings and funds from increased tax collection are generated. Pemex will remain the government's cash cow for the foreseeable future.

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Don't bug me with trade  
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19. (C) Robles-Gil gave the impression that trade issues do not make the list of campaign priorities. "I doubt whether AMLO knows what the Doha Development Agenda is," he remarked.

He offered his understanding that AMLO would seek a pragmatic relationship with the U.S. while seeking ways to balance Mexico's international relations and reduce Mexico's dependence on the U.S. economy. Perhaps AMLO would be interested in Mercosur, but for now he is distancing himself from Venezuelan President Hugo Chavez and would not discuss Mercosur during the campaign. Robles Gil did not know how AMLO intended to approach NAFTA, commenting only that the presidential candidate believes the trade agreement "could be enhanced." He added that key advisors like Ramirez de la O and Manuel Camacho--who would likely receive a cabinet or chief of staff position in an AMLO government--are pragmatists and strong supporters of robust economic ties with the U.S. "But the big question for AMLO is going to be how to deal with the U.S. immediately after he wins," Robles-Gil remarked.

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Willing to go after special interests?  
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¶10. (C) Responding to a question about which monopolies AMLO believes most damage the Mexican economy, Robles-Gil named only Televisa. He then stated AMLO would focus on the banking sector, which he views as vastly underused and making enormous profits while doing little to promote Mexico's growth. AMLO supports a truth and reconciliation commission to uncover malfeasance that stemmed out of the GOM's massive bailout of local banks following its 1995 currency collapse and would seek to get money back from the banks. He would go after two to three people, including Roberto Hernandez Ramirez. "Mexicans are still paying for crooked bankers," Robles-Gil commented. When asked whether AMLO would challenge Mexican billionaire Carlos Slim, he surmised that AMLO's personal relationship with Slim would seem to preclude this.

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We're ahead, now what?  
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¶11. (C) Comment: Robles-Gil presented an image of a confident but chaotic campaign team, where little time is available for working through difficult policy questions. Success for AMLO's economic program relies on the continuation of positive trends that are largely out of Mexico's control, as well as investor confidence. AMLO's team continues to

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disregard the warnings of energy interests that characterize AMLO's calls to divorce Mexico from world oil and gas markets as "unrealistic". It is also not clear what effect AMLO's aggressive stance towards local bankers would have on international investors. Still, AMLO's economic advisors do appear to recognize that Mexico will face difficult times ahead if oil prices fall, interest rates continue to rise, remittances slow, or the U.S. economy stumbles. AMLO's team understands that maintaining investor confidence will require reassuring the markets in the days immediately following a potential victory, but it is not clear that the candidate has yet formulated a plan for doing so.

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